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STATE FOR AF/EPS G. MALLORY  
STATE PASS TO USTR FOR C. HAMILTON  
ALSO PASS TO COMMERCE FOR K. BOYD  
TREASURY FOR A. IERONIMO

SIPDIS

E.O. 12958: N/A  
TAGS: [EAGR](#) [EAID](#) [ECON](#) [ENRG](#) [ETRD](#) [EINV](#) [PHUM](#) [PGOV](#) [AGOA](#) [KCOR](#)  
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SUBJECT: UGANDA: 2009 AGOA ELIGIBILITY REVIEW

REF: A) STATE 97769

[1](#)1. Country: Uganda

[1](#)2. Current AGOA Status: Eligible

[1](#)3. Country Background Summary: After two decades of broad-based economic growth and political stability, Uganda is now confronting a range of economic and governance challenges as it tries to sustain and deepen economic growth and development. The Government of Uganda (GOU) has supported the passage and implementation of laws and regulations to create greater government accountability, open markets, expand infrastructure, and build a more attractive environment for foreign investment. Uganda's judiciary remains largely independent, though corruption continues to be a major problem. Political parties function, but government restricts both the press and grassroots political activity. Four labor reform bills aimed at improving labor rights were passed by Parliament in [1](#)2006. Only some of these have been implemented. Uganda pro-actively partners with the U.S. in countering regional security threats and extremism in East and Central Africa.

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COMMENTS ON ELIGIBILITY REQUIREMENTS  
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[1](#)I. MARKET-BASED ECONOMY  
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[1](#)A. Major strengths identified:

-- The Government of Uganda (GOU) is making commendable economic progress, with sound macroeconomic policies emphasizing low inflation, steady growth, and low debt levels.

-- The country maintains a liberal trade and foreign exchange regime, and largely adheres to IMF/World Bank programs to fight poverty, maintain macroeconomic stability and restructure the economy.

-- External debt levels were 12.2% of GDP in 2008/09, which remains low by international standards. While inflation has remained in the single digits for most of the last decade, it spiked to 15.9% in [1](#)2008. As of August 2009, inflation remained high at 12.4%.

-- The GOU continues to make progress increasing the role of the private sector in the economy. It has privatized most of its public enterprises over the past few years, including entities in the banking, telecommunications, and energy industries. Twenty-three companies are yet to be privatized. The GOU intends to retain a

further seven companies deemed to be of national interest.

-- There are no foreign exchange controls affecting legitimate trade and investment, and Ugandan law allows 100% foreign ownership of domestic enterprises. The capital markets sector, while impacted by the global financial crisis, is steadily improving with 11 companies listed and one more company expected later in 2009

-- The Heritage Foundation's Index of Economic Freedom listed Uganda's economy as the fourth freest economy in sub-Saharan Africa in 2008, based on factors such as the ease of doing business, openness to trade, property rights, and fiscal and monetary policy.

-- Important sectors are seeing strong growth as a result of private investment. The fastest growing sectors of the economy are services (especially financial services), construction and manufacturing, though the transport (road, rail and air) and telecommunications sectors are also experiencing strong growth.

-- Uganda's banking sector is seeing strong development as a result of the approval of new licenses by the Bank of Uganda. The number of licensed banks in Uganda rose to 21 from 15 in 2007. The larger number of banks is generating competition and innovation in terms of the products offered to customers. Five new bank branches opened recently in Gulu, in northern Uganda, demonstrating that area's development after years of conflict.

-- Recently, GOU initiatives have focused on infrastructure investment, the promotion of foreign investment, value-added manufacturing and increased international trade. This strategy has reaped rewards, with economic growth at 7% in the 2008/2009 Ugandan

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fiscal year and estimated at 6% for 2009/2010.

-- President Museveni continues to speak out in favor of open trade with his mantra that "trade, not aid" will fuel Uganda's economic development and reduce poverty. The country has recently seen success, with exports rising to \$1.72 billion in 2008 on the back of high commodity prices and higher exports to regional markets.

-- Shifting away from its traditional European markets, Uganda saw regional exports continue to rise in 2008. Exports to the Democratic Republic of Congo rose to \$127 million in 2008 from \$100 million in 2007, and to Sudan to \$246 million in 2008 from \$157 million in 2007. Uganda also saw export growth to the countries that make up the Common Market for Eastern and Southern Africa (COMESA) from \$506 million in 2007 to \$723 million in 2008.

-- The Government of Uganda has significantly increased investment in infrastructure for the last two years, spending \$687 million in 2008/2009, and budgeting \$559 million in 2009/2010. This is up from \$390 million in 2007/2008. The budget also provides \$170 million for energy infrastructure development.

-- Uganda is aggressively trying to diversify its energy sector to reduce the amount of current load shedding, planning 1,045 MW of new capacity in the next five years. The largest generation project is a 250 MW hydropower dam at Bujagali Falls on the Nile River. It is expected to be completed in mid-2011.

-- The discovery of significant oil reserves (estimated at over two billion barrels of recoverable oil) near Lake Albert in western Uganda should eventually help alleviate Uganda's power shortage while also significantly increasing GOU revenues. Oil production should begin in 2010, with initial production of 5,000 barrels per day and a crude oil power plant coming online in 2011 or 2012. Depending on oil prices, this windfall will eventually result in a doubling of current government revenues.

-- The East African Customs Union agreement between Uganda, Kenya, and Tanzania continues to harmonize duties, standards and practices, which should decrease costs and time associated with exports within the region.

-- Tax revenue collections by the Ugandan Revenue Authority (URA) continue to increase.

-- Uganda continues to improve its physical and regulatory structure; including draft legislation to upgrade Ugandan intellectual property protections.

1B. Major issues/problems identified:

-- Limited access to affordable credit remains a challenge for business. Credit for commercial loans remains difficult, with the Ugandan schilling rate for prime corporate borrowers ranging from 17 to 19%.

-- Uganda's drought has largely ended, benefiting hydropower generation plants. Access to electricity countrywide increased to 15% in 2008 from 5% in 2001. Analysts say new power demand is increasing at 8% per annum, however, outstripping the power created by new generation projects. Electricity shortages and transportation bottlenecks hinder economic growth and trade in every sector.

-- Corruption and lack of transparency have caused difficulties for some U.S. investors, and senior GOU officials do not always respond adequately to Embassy advocacy for a level playing field for all market participants. Major public tenders in the past year have resulted in multiple investigations for fraud, mismanagement, and abuse.

-- Critics assert that the benefits of privatization went overwhelmingly to insiders, and not all privatizations have proved successful. The privatization of the former Kenya-Uganda Railway to a South African firm for \$288 million, as reported in the 2007 AGOA report, has resulted in no visible investment to date and railway cargo to and from Kenya remains at a trickle.

-- While Uganda maintains an open economy, high levels of corruption and a lack of effective infrastructure make it a very difficult place to do business. The World Bank ranks Uganda as one of the worst places in the world to do business (108 out of 134) in its annual Global Competitiveness Index.

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-- A key GOU challenge will be managing and investing oil resources in a fair and transparent way. The government still has not developed a revenue management or sharing scheme.

-- Uganda needs to combat counterfeit goods much more aggressively in order to protect local manufacturers and trading partners. A long-standing case involving counterfeit Kiwi shoe polish, owned by Sara Lee, has languished in court for the last five years. Sara Lee made its submission and the case awaits judgment.

-- While the GOU steadfastly supports AGOA and promotes its benefits, it has experienced significant difficulties realizing its full potential. Uganda receives similar benefits for its exports from nearly all developed markets, including the European Union, its largest trade partner. Uganda's 2008 exports under AGOA and the General System of Preferences were valued at \$1.1 million, down from \$1.7 in 2007. Exports included apparel, tungsten concentrates, cut flowers, wooden ornaments, and jewelry.

-- Apparel exports, a previous focus of Uganda's AGOA strategy, have faced challenges under AGOA. Tri-Star Apparel and Phenix Logistics had exported to the United States, but both operations have since gone bankrupt, with significant losses to the GOU, which had invested in the enterprises. This led observers to criticize President Museveni for an ad hoc approach to AGOA that favored a few firms and individuals instead of taking a strategic approach that invested in critical export sectors.

II. POLITICAL REFORM/RULE OF LAW/ANTI-CORRUPTION

#### 1A. Major Strengths Identified:

-- Uganda's judiciary is largely independent, but understaffed and under-funded. The judiciary has on several recent occasions ruled against the Government on major issues, though the Executive has not complied with some court decisions.

-- The GOU has taken steps to increase the number of judicial officers. Uganda now has a total of 53 judges. The GOU continues its efforts to improve judicial efficiency and promote alternative methods of dispute resolution. Special courts to resolve commercial disputes are now functioning. Due process rights are generally respected in civil and criminal cases.

-- Uganda adopted a multiparty system in 2005 after two decades of a no-party or "movement" system during which political parties were banned. The ruling National Resistance Movement (NRM) party of President Museveni continues to dominate the government and parliament.

-- Uganda signed a \$10.4 million Millennium Challenge Corporation Threshold Country Plan (MCC TCP) on March 29, 2007, and began implementation in August 2008. The plan is aimed at tackling corruption in government procurement. The GOU committed \$2.2 million toward this project, but only \$1.1 million was allocated in the supplementary 2008/2009 budget. No budget allocation was made in the 2009/2010 budget. While this program was effective at enhancing some of the technical capacity for fighting corruption, political will remains absent. This program is not being renewed for 2009/2010.

#### 1B. Major issues/problems identified:

-- The judicial system continues to suffer significant inefficiencies including occasional incompetence and/or corruption at lower levels of the court system, in particular at the magistrate level.

-- There were several politically charged court cases in 2009 where the GOU failed to charge individuals in court within the Constitutionally-mandated 48-hour period.

-- Significant judicial backlogs continue to cause long delays in the justice system, particularly in northern Uganda, which is transitioning back to a civilian law and order regime after decades of insurgency.

-- Government actions against the media included harassment of journalists, monitoring of independent newspapers and radio programs, charging journalists with various media code violations

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including sedition and incitement of hatred against the president, the temporary closure of an independent television station and the indefinite closure of four radio stations, the suspension of numerous journalists, and censoring of reporting by independent newspapers, radios and television stations.

-- Riots in Kampala from September 10-12 left as many as 27 people dead and more than 100 injured. Riots erupted after the Ugandan government blocked the Buganda King from visiting the district of Kayunga north of Kampala. In the wake of the riots, the GOU closed a number of radio stations and arrested a number of journalists for allegedly inciting and fueling the riots. Over 800 people were arrested during and after the riots, including some opposition politicians. Some suspects have been released on bail while others remain in prison. More than two dozen suspects arrested for burning a police post in Kampala were charged with terrorism, which is a capital offense.

-- Corruption is a serious problem in Uganda and while progress is being made at the institutional level, the GOU leadership's political will to fight corruption remains questionable. Uganda fell 15 places on Transparency International's perceptions of corruption index, dropping from a ranking of 111 in 2007 to 126 in 12008.

-- Under ethics legislation, a wide range of public officials, including the President, are required to declare their wealth and there is a provision that allows for the dismissal of politicians for failure to declare their full wealth. In practice, this power has been exercised only selectively, however.

-- In September 2005, the Global Fund for HIV/AIDS (GF) suspended its five grants worth over \$201 million to Uganda after evidence emerged of serious mismanagement of \$45 million that had been expended. A Judiciary Commission of Inquiry released a 400-page report in 2006 placing primary blame on the former Health Minister, the former State Minister for Health, and the former Minister of State for Primary Health Care for fraud and mismanagement of the funds. In April 2007, however, the Cabinet issued a white paper exonerating these former ministers, which in the minds of many critics called into question the government's commitment to combating corruption. In a second major scandal, high-level government insiders allegedly diverted funds for the Global Alliance for Vaccines and Immunizations (GAVI) in order to assist their political campaigns. Four people have been charged and sentenced but three have been released on bail.

-- In the second half of 2008, Parliament began investigations into another high-level corruption case involving the National Social Security Fund (NSSF), the state-run pension system, over the latter's purchase of allegedly over-priced land from a company owned by the Minister of Security. The NSSF Chairman testified that the Ministers of Security and Finance pressured him into buying land, much of which was determined to be wetland, for a low-cost housing project. This year, the NSSF was yet hit by another scandal when reports by external auditors revealed that the Managing Director and his Deputy had irregularly acquired loans from the fund to the tune of \$1 million each. NSSF had also earlier been dragged to court for terminating a contract with a construction company. Court awarded the construction company US\$9 million in damages.

-- Several senior Government and military officials accused of corruption have not been prosecuted. Illegal defense procurement arrangements and other corrupt practices remain prevalent, but the GOU has failed to follow up on such cases involving high government and military officials.

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III. Poverty Reduction  
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A. Major Strengths Identified:

-- Among other initiatives, the budget continues to make roads and other infrastructure a priority, which will assist the poor and boost overall economic development. It also represents a decline in aid dependence, with 32% of the budget coming as direct support from foreign donors, down from just under 50% only three years ago. (Note: These figures do not include U.S. assistance and other donor support that is provided off-budget. The U.S. provides only off-budget support. End Note.)

-- Recent statistics show that the poverty rate has declined from

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38% in 2004 to 31% in 2006, the most recent figure available.

-- The Poverty Eradication Action Plan (PEAP), launched in 1997 and revised every four years, continues to focus the GOU's poverty reduction activities, specifically by improving health and sanitation, access to clean water, universal primary education, the transport system, and growth in the agricultural sector. The goal is to reduce poverty to 10% by 2017. The GOU is in the process of reviewing the PEAP and drafting a five year National Development Plan.

-- Another program, the Peace, Recovery, and Development Plan (PRDP), focuses on development and poverty alleviation in northern Uganda. \$52 million was allocated in the 2009/10 budget. Uganda began disbursing PRDP funds to local governments in September 2009.



-- Economic conditions and trade in northern Uganda have improved significantly in the past year as a result of increased security. There have been no attacks in northern Uganda since August 2006. The majority of the 1.8 million internally-displaced persons in northern Uganda have returned to or near their homes.

-- Trade between northern Uganda and southern Sudan has increased due to improved security in southern Sudan and northern Uganda.

-- USAID is currently implementing a \$35 million poverty reduction program aimed at improving rural livelihoods, particularly in the north.

-- On the health side, Uganda had developed a model program to combat HIV/AIDS, and prevalence rates have decreased from close to 20% in the 1990s to 6.4% in 2006. The United States is Uganda's key partner, contributing \$285 million in FY 2009 to HIV/AIDS initiatives through the President's Emergency Plan for AIDS Relief (PEPFAR). Since 2005, PEPFAR has invested over \$1.4 billion in a balanced program of prevention, care, treatment and capacity building initiatives with more than 90 implementing partners. PEPFAR currently funds two-thirds of Uganda's response to the disease, including funding for anti-retroviral drugs.

B. Major issues/problems identified:

-- Population growth of 3.2% annually creates an urgent need for sustained and broad-based economic growth. The GOU will be particularly challenged to create jobs, as Uganda's working age population will double in 15 years.

-- While Uganda had strong initial success in combating HIV/AIDS, there is growing concern that incidence of new cases is on the rise due to population growth and complacency on the part of the government and the general population. Currently, only half of those that need ARVs are able to access them, and this number is likely to grow in the coming years.

-- Corruption and mismanagement of government resources discourages investment and decreases the effectiveness of anti-poverty programming.

-- Uganda's weak infrastructure, health and education systems have a larger-than-average impact upon the poor.

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IV. Worker Rights/Child Labor/Human Rights  
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Major Strengths Identified:

-- Four labor reform bills passed by the Parliament in March 2006 were aimed at improving labor rights in Uganda. Some of these laws have not yet been implemented.

-- The new laws reduce the minimum number of workers required to establish a union from 1,000 to 20, remove the requirement that at least 51% of employees join a union before management is required to engage in collective bargaining, and set new timeframes for union recognition, collective bargaining and strikes.

-- The Industrial Court is now funded directly by the national budget (not through the Labor Ministry), and the President of the Industrial Court has been elevated to the status of a judge. The Industrial Court has the power to re-instate employees who are improperly dismissed, and to impose fines against employers.

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-- The National Organization of Trade Unions (NOTU) is the largest labor federation, and includes about 15 unions. Its rival, the Central Organization of Free Trade Unions (COFTU), includes five unions. An estimated 855,000 of 2 million persons working in the formal sector belong to unions.

-- Uganda cooperates with the International Labor Organization (ILO) and has ratified all eight ILO conventions.

-- In May 2007, the GOU launched its national child labor policy, which was passed in Parliament in November 2006. Comprehensive anti-trafficking in persons legislation was passed by Parliament on April 6, 2008 but is pending the President's signature. There are active programs underway, with support from the ILO and the U.S. Department of Labor, to combat child labor, but the practice nevertheless remains a concern in Uganda, particularly in the informal sector. The United States has supported efforts to move the legislation forward.

-- Approximately 100 district-based labor officers have responsibility for inspecting workplaces and processing worker and management complaints. Though not fully effective, this mechanism contributes to the enforcement of labor standards.

#### 1B. Major Issues/Problems Identified:

-- The Ministry of Gender, Labor and Social Development, which oversees national labor policy and helps enforce labor laws, is under-staffed and under-funded.

-- Child labor remains common, especially in the informal sector and agricultural industries.

#### 1V. International Terrorism/U.S. National Security

##### 1A. Major Strengths Identified:

-- Uganda has not engaged in activities that undermine U.S. foreign policy interests or national security and in fact Uganda continues to actively support the United States on counter-terrorism matters.

-- The GOU's cooperative attitude was demonstrated during the Commonwealth Heads of Government Meeting (CHOGM), held in Uganda in November 2007, when the GOU worked closely with over 50 foreign governments on security matters to host this complex event.

-- In preparation for CHOGM, the GOU initiated additional security steps at its ports of entry (specifically the airport). These security steps have resulted in the detention and/or arrests of transiting individuals suspected of having links to international terrorist organizations.

-- Uganda's provision of approximately 2,600 military troops in support of the African Union Mission to Somalia (AMISOM) since early 2007 strongly demonstrates its willingness to contribute to regional stability.

##### 1B. Major Issues/Problems Identified:

-- Uganda's anti-terrorism security capabilities are generally low.

-- Uganda's location in East Africa and porous borders make Uganda a known terrorist transit point.

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